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RUEHUJA/AMEMBASSY ABUJA PRIORITY 9404
RUEHC/SECSTATE WASHDC PRIORITY 9660
INFO RUFOADA/JAC MOLESWORTH AFB UK
RUEKJCS/SECDEF WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHINGTON DC
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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000792

SIPDIS

SIPDIS

STATE FOR AF/W, EEB/ESC, INR/AA,
TREASURY FOR ASEVERENS, SRENENDER, DFIELDS
COMMERCE FOR KBURRESS
DOE FOR GPERSON, CGAY
STATE PASS USTR FOR ASST USTR FLISER
STATE PASS TRANSPORTATION FOR MARAD
STATE PASS OPIC FOR ZHAN AND MSTUCKART
STATE PASS TDA FOR NCABOT
STATE PASS EXIM FOR JRICHTER
STATE PASS USAID FOR GWEYNAND AND SLAWAETZ

E.O. 12958: DECL: 12/17/2017
TAGS: EPET ENRG PGOV NI
SUBJECT: EXXONMOBIL PREPARES FOR NIGERIA'S GAS FLARING
DEADLINE

REF: LAGOS 000667

Classified By: Consul General Donna Blair for reasons 1.4 (B) and (D)

¶1. (C) Summary: ExxonMobil (EM) will not meet Nigeria's January 1, 2008 deadline to end natural gas flaring (Ref). EM has a multi-billion dollar plan in progress to reinject gas into near offshore fields, but will continue to flare some "routine" gas until at least 2011 unless it is forced to shut-in oil production. EM has sought more clarity on gas flaring regulations and is attempting to educate legislators and regulators on the issue, with little success. The company is preparing contingency plans for January 1, 2008 based on several scenarios. End Summary.

WHEN IS A FLARE NOT A FLARE?

¶2. (C) In a meeting with Econoff, Troy Tranquada a senior EM engineer in charge of near offshore facilities engineering, described the state of EM gas flaring and the difficulties the company is having in eliminating flaring in Nigeria. Tranquada explained how EM viewed flaring and he shared a proprietary briefing that described EM's current situation and its plans for reducing gas flaring in Nigeria.

¶3. (C) Currently, EM flares 500 million standard cubic feet per day (MMSCF/D) of the 1880 MMSCF gas generated daily during oil production in its near offshore fields. (Note: These fields are located in shallow water south of Akwa Ibom and Rivers States. The fields are joint ventures operated by EM's Mobil Producing Nigeria subsidiary. End Note.) The gas not flared is used for operational purposes, such as gas reinjection into oil fields, facility power generation or extraction of natural gas liquids. Tranquada explained that all flaring is not equal and he outlined its various components:

--Purge Flares: A relatively small amount of gas is continually flared from production platforms for safety reasons. This gas is vented and lit to act like pilot light. If a larger amount of gas needs to be vented for emergency reasons (see below), this purge flare will allow it be vented and burned safely instead of the raw gas being expelled into the atmosphere. According to Tranquada, purge flaring cannot be completely eliminated. However, EM currently uses older purge systems that vent more gas than newer systems. EM plans to modernize these systems over the next eight years.

--Reliability Flares: These flares result from planned or unplanned facilities outages, particularly in compressor systems used to compress the natural gas for reinjection into the oil reservoir. If a compressor is off-line, gas must be flared to prevent a blowout on the production platform. The gas is lit by the purge flare noted above. Tranquada admitted that reliability flares are the single largest component of EM's flaring and will remain so into the future. EM equipment has suffered from a lack of maintenance and upgrades resulting in greater than desired equipment downtime and increased flaring. (Comment: This admission was unusual. Oil companies are typically reluctant to acknowledge that maintenance related problems are contributing to gas flaring. End Comment.)

--Stranded Flares: This is gas that is flared because no equipment exists to reinject it into the field or otherwise use it. EM has plans to eliminate this type of flaring by 2011 as detailed in para 5.

--Discretionary Flares: Similar to stranded flares, discretionary flares come from gas produced in excess of

compression capability at the platform. EM has plans to eliminate this flaring by 2010.

¶4. (SBU) EM classifies purge and reliability flares as "operational" and claims that, while they can be reduced greatly, they cannot be eliminated entirely. Operational flaring accounts for 80 percent of EM's current daily flaring. Stranded and discretionary flares are classified by EM as "routine" and EM says these flares can be eliminated given sufficient time and money.

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Exxon's Plans to Eliminate Routine Flaring by 2016
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¶5. (C) EM has a three part plan to eliminate routine and reduce operational flaring. EM has nearly completed work on the USD 4.2 billion East Area Project (EAP). This project combines gas reinjection upgrades for additional oil recovery in its eastern fields, with expansion of natural gas liquids production in its western fields. Upon completion, EAP will inject 900 MMSCF per day back into oil reservoirs to maintain pressure and enhance oil recovery. Additionally, EM is planning USD 400 million in compressor overhauls and flare technology upgrades to enhance equipment reliability and reduce purge flares. This Flare Upgrade Project will reduce operational flares by 160 MMSCF/D. Finally, at its Qua Iboe oil terminal, the company has launched a USD 1.4 billion flare elimination project to reduce flaring by 40 MMSCF/D. The failure of the Nigerian National Petroleum Corporation (NNPC) to adequately fund the joint ventures and ongoing security problems have delayed all three projects. Additionally, the competition for scarce in-country resources brought on by the security problems and Nigerian content legislation is driving up project costs. EAP is partially operational and EM estimates that work will be completed in the first quarter of 2008. (Note: To finance EAP, EM tapped alternate sources of funds to make-up for NNPC's arrears. End Note.) The Qua Iboe terminal project is scheduled for completion in the second half of 2011, while the Flare Upgrade Project will come on-line on a rolling basis between

2010 to 2016. The timelines on the last two projects are funding dependent. At the completion of all the above projects, estimated around 2018, EM will still flare 146 MMSCF/D, with 85 percent of that coming from reliability flares and the remainder purge flares.

EM Preparing for the Worst

¶6. (C) According to Tranquada, as a result of discussions with the Oil Producers Trade Section (OPTS) of the Chamber of Commerce, the Nigerian government has reduced the proposed fine for flaring to USD 3.50 per thousand standard cubic feet (MSCF), down from the USD 100 per MSCF originally announced. While this reduced fine, which has not been publicly announced, is more reasonable, EM expects it will still have to shut-in 50,000 barrels per day of oil production for economic reasons. Tranquada said that EM is prepared to shut-in all production from its near offshore fields should the fine remain at USD 100 per MSCF, with the exception of the Yoho field, which does not flare significant amounts of gas. (Note: Similarly, EM's large Erha deep water offshore field does not flare significant amounts of gas and will remain on-line regardless of the announced fine. End Note.)

¶7. (C) EM, independently and in conjunction with OPTS, has tried to educate Nigerian legislators and DPR officials on the issue. While legislators appear open to new information, Nigeria's oil regulator, The Department of Petroleum Resources (DPR) has rebuffed attempts at dialogue. According

to Tranquada, DPR's proposed flaring regulations are vague and the fines fall exclusively on the joint venture operator. A serious concern of EM is that DPR refuses to acknowledge that, for safety reasons, some flaring is necessary during oil production and cannot be eliminated completely. Tranquada points out that operational flaring occurs in almost all oil company activities worldwide including the North Sea and Gulf of Mexico, but other countries have detailed procedures in place to monitor and deal with flaring. Nigeria's regulators have promulgated no such plans beyond the fines.

¶8. (C) When asked how flaring was handled in other countries, Tranquada replied that some countries put a cap on the amount that can be flared, for instance 3 percent. If flaring goes above this level for a predetermined amount of time, operators are required to file discrepancy reports with government regulators at which time the regulator can decide whether to shut-in the well until repairs are complete. He noted that even Angola has such a system in place, although he acknowledged that Angolan authorities do not typically order wells to be shut-in due to excessive flaring.

¶9. (C) Tranquada detailed a gas flaring protocol that EM had proposed to the DPR. In that proposal, starting January 1, 2009, EM would notify DPR of all "routine" flaring events greater that 15 MMSCF/D that lasted longer than 24 hours. DPR would then have the option of ordering a halt to production until the situation was brought under control. Tranquada estimated that events of this size occur about once a week. EM went so far as to provide recommended formats for tracking and monitoring flaring events. DPR has not responded to the proposal. Tranquada noted that Nigeria has no defined procedures for oil companies to report flare events or for DPR to monitor them.

¶10. (C) Comment: Negotiations on gas flaring are coming down to the wire. Reports in the press appear to indicate that Nigeria is softening its stance. Minister of State for Energy (Petroleum) Henry Ajumogobia has been quoted in the press as supporting a one year delay in the deadline. A Post contact at a European Embassy reports that the Minister of

State for Energy (Gas) Odusina Emmanuel also supports that move. Publicly at least, Tony Chukwueke the head of DPR continues to play the role of "bad cop" by insisting there will not be a reduction in the fine or postponement of the deadline. While all of our oil company contacts believe an accommodation will be reached, they are showing more concern as the end of the year approaches. End Comment.

¶11. (U) This cable has been cleared with Embassy Abuja.
BLAIR